

North Carolina Should Require NC Railroad Company to Pay an Annual Dividend and Strengthen Reporting

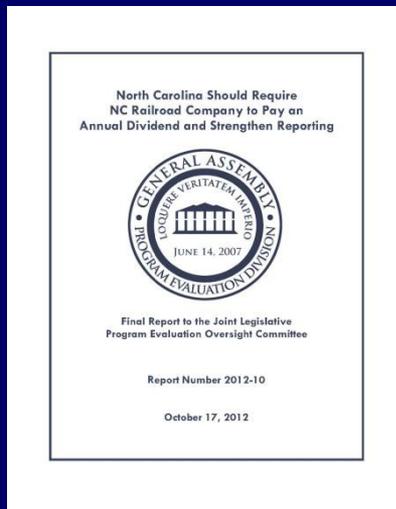
A presentation to the
Joint Legislative Program Evaluation Oversight Committee

October 17, 2012

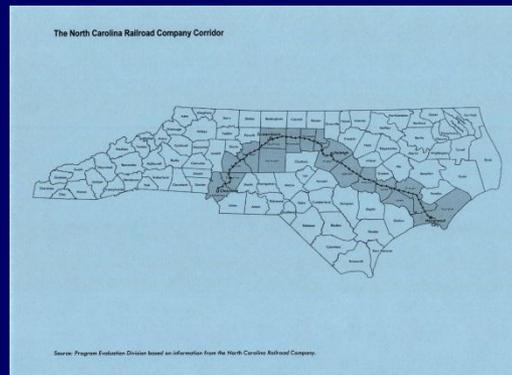
Jim Horne, Senior Program Evaluator

Handouts

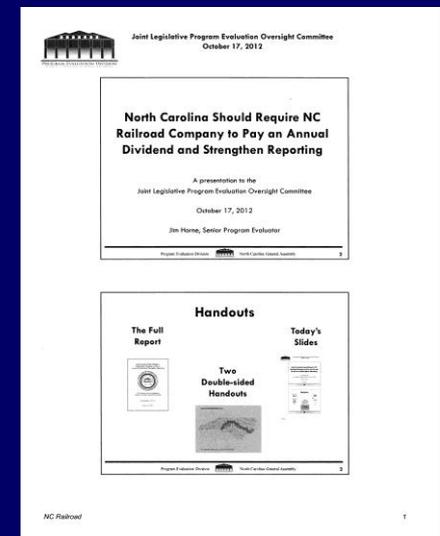
The Full Report



Two Double-sided Handouts



Today's Slides



Evaluation Team

Jim Horne, Evaluation Lead

Michelle Beck, Senior Evaluator

Jeff Grimes, Evaluator

Carol Shaw, Principal Evaluator

Pamela Taylor, Statistician

Contributions by Ryan Blackledge, Bill Drafting

Our Charge

- Session Law 2011-145 as amended
- Review corporation's mission, economic development benefits, tangible and intangible value, governance
- Whether NCRR should be sold, transferred under the Department of Transportation or another state agency, or maintain its corporate structure

Report p. 2

Data Sources

- Corporate financial data 1999-2011
- Railroad ownership in other states
- Railroad inspection
- Focus groups
- Interviews



Railroad Inspection Vehicle

Report p. 2

Overview of Findings

1. NCRR's unique relationship with the State contributes to NCRR's financial health
2. NCRR owns railroad corridor and other assets, but determining its market value would require a professional business valuation
3. State has limited mechanisms for oversight of NCRR

Overview of Findings

4. Changing NCRR's corporate status has legal and financial implications
5. Selling NCRR may not be in best interest of North Carolina, but some non-corridor properties could be sold

Overview of Recommendations

1. Amend General Statutes to strengthen NCRR's reporting requirements
2. Direct NCRR to pay a one-time dividend of \$15.5 million to the General Fund
3. Direct NCRR to pay an annual dividend of 25% of trackage rights agreement fee to the General Fund
4. Direct NCRR to convey 14 non-corridor properties to the State as a dividend

Background



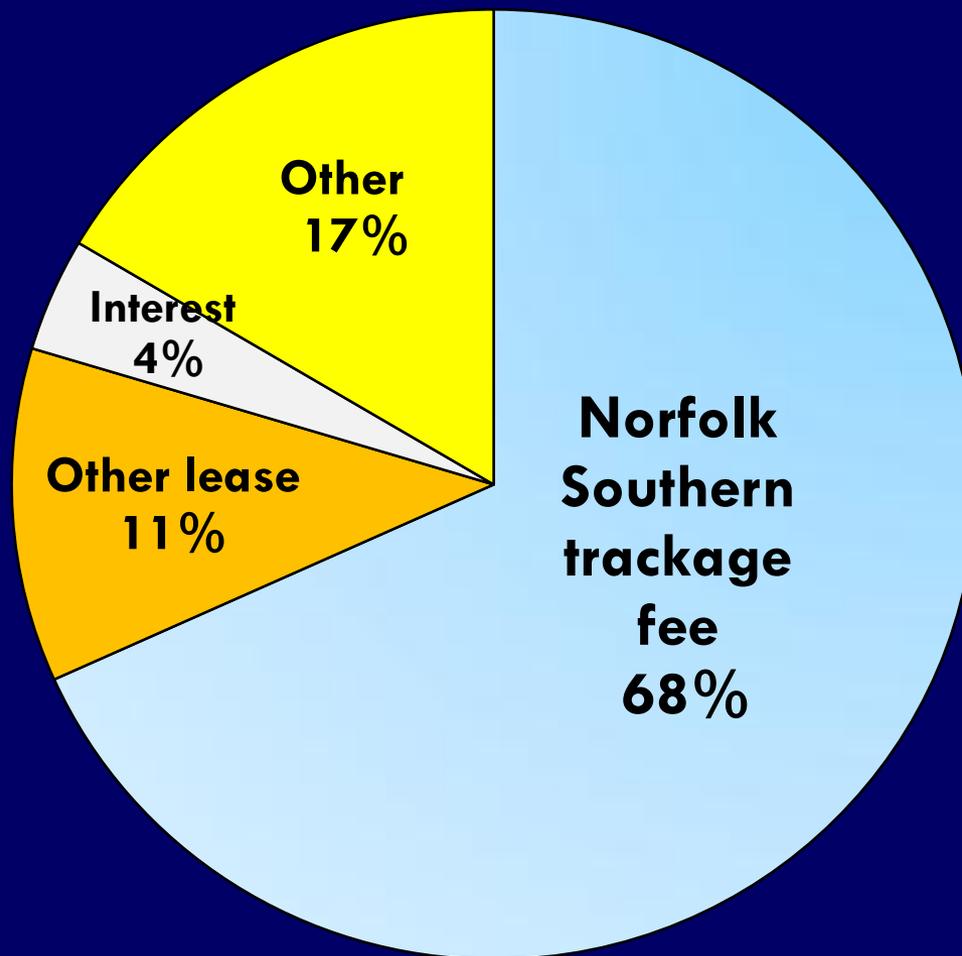
North Carolina Railroad at Charlotte

NCRR History

- NCRR was incorporated in 1849
- State became sole shareholder in 1998
- NCRR owns railroad, but Norfolk Southern is exclusive freight operator
- Railroad corridor also supports rail passenger operations

Report pp. 3-9

NCRR Reported \$20.7 Million in Total Income During 2011



Report p. 7

Findings



NCR Double-track in the Piedmont

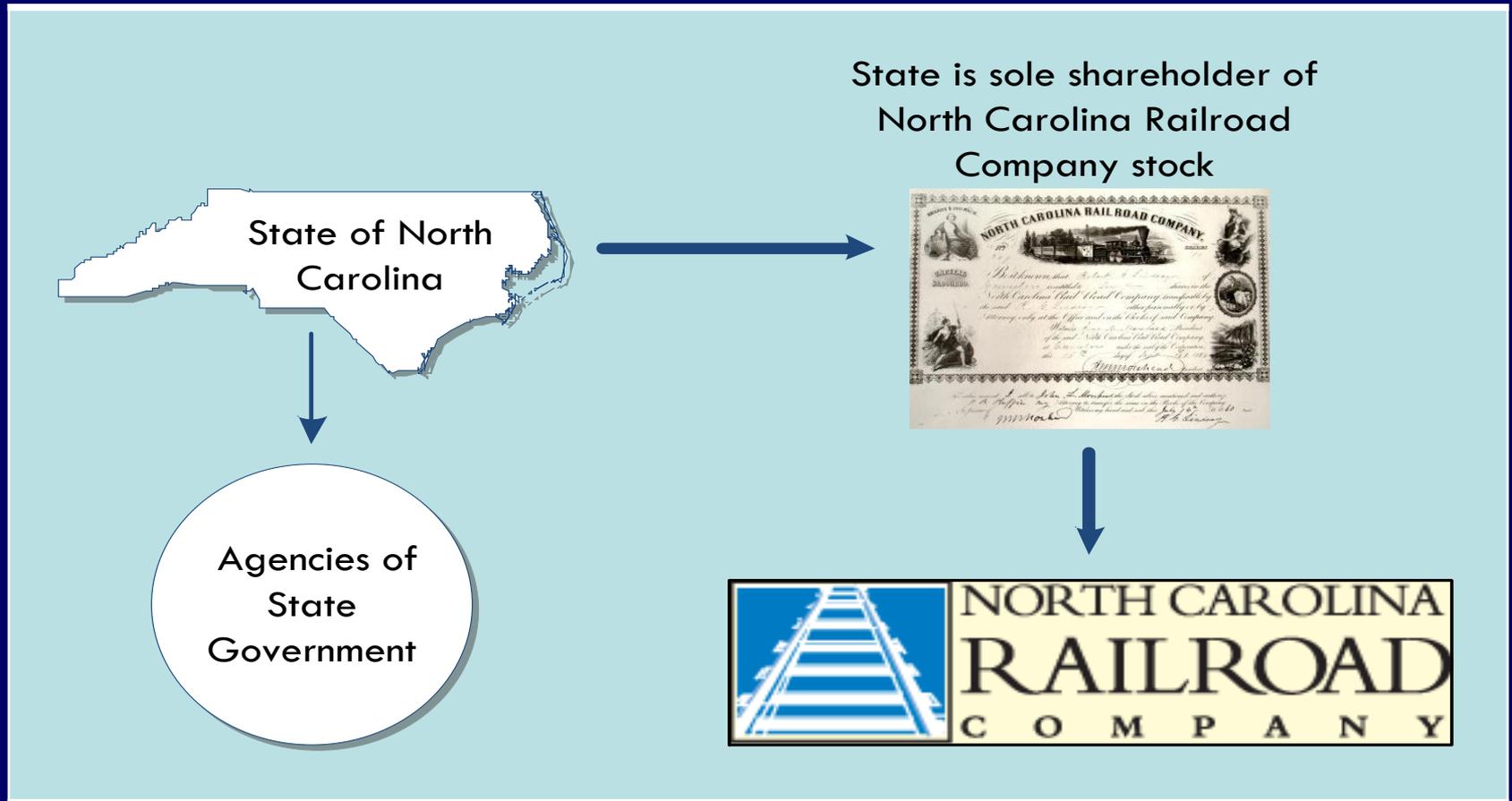
Finding 1.

NCRR's Unique Relationship with the State Contributes to NCRR's Financial Health



North Carolina Railroad at Greensboro

The State Is Sole Shareholder, but NCRR Remains a Private Company



Report p. 9

NCRR Benefits from Its Relationship with the State

- NCRR received \$196.3 million in capital contributions from the State since 1998
- Favorable tax status because NCRR is owned by the State
- NCRR is both profitable and solvent

Report pp. 10-11

NCRR Has Not Paid the State Any Dividends since 2006

- State law requires dividends must be used for capital improvements on the NC Railroad
- Change in dividend use requires legislation
- NCRR's Board has chosen to invest most of company's income in capital improvements
- NCRR has accumulated over \$65.2 million for future capital improvement projects

Report p. 11

Finding 2.

NCRP Owns Railroad Corridor and Other Assets, but Determining Market Value Would Require a Professional Business Valuation



Trent River Bridge at New Bern

NCRR Assets

- Primary asset is the 317-mile corridor
- Other assets of value includes 62 non-corridor properties
- Another important asset is the trackage rights agreement with Norfolk Southern
- Professional business valuation needed

Report pp. 12-14

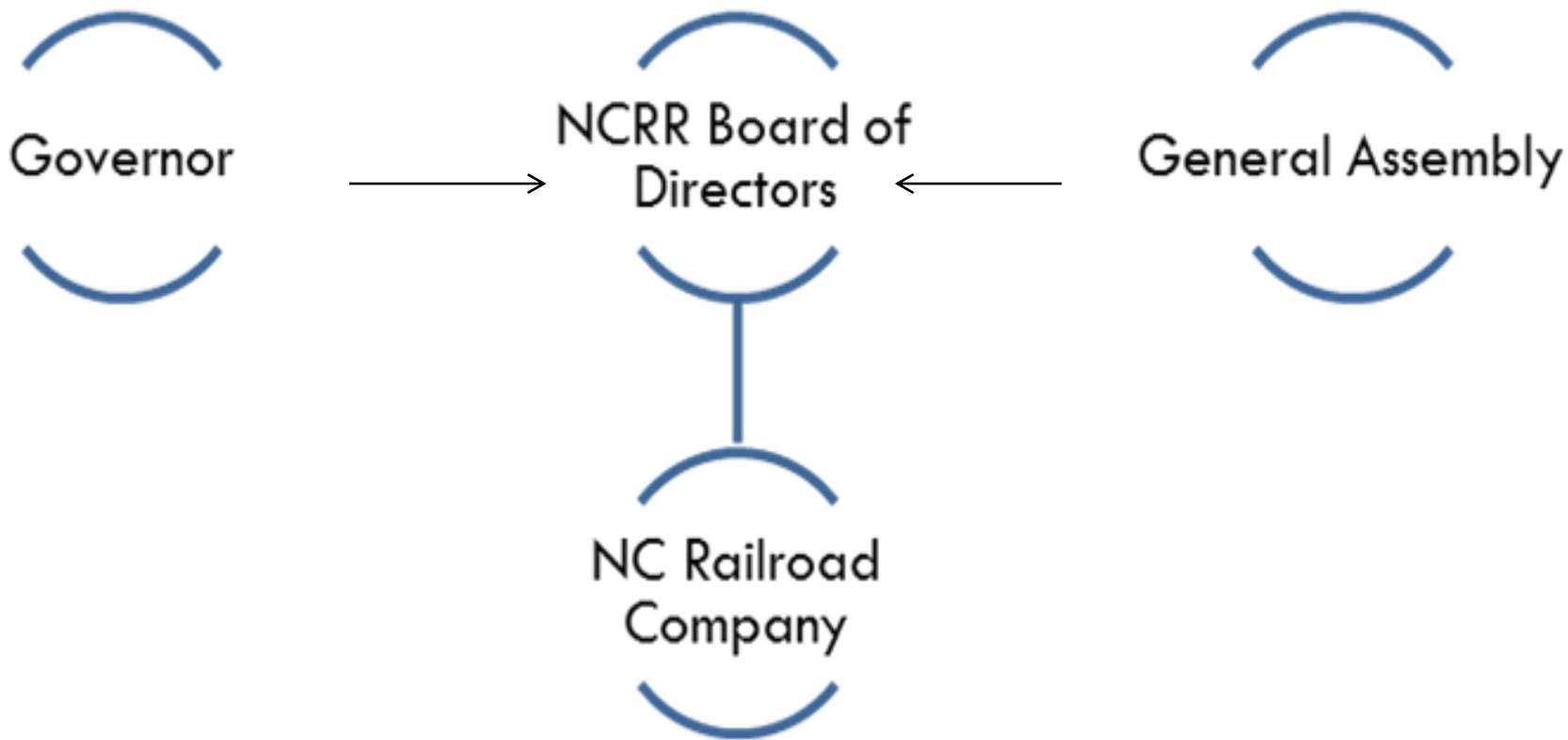
Finding 3.

The State Currently Has Limited Mechanisms for Oversight of NCRR



North Carolina Railroad east of Raleigh

State's Primary Method of Oversight Is Board Appointments



Report p. 14

Additional Mechanisms of Oversight Are Limited

- Minimal reporting requirements
- NCRR not subject to same reporting requirements as public corporations
- Since 2007, NCRR has not fully met all reporting requirements

Report pp. 15-17

NCRR Is Not Required to Develop a Strategic Plan like State Agencies

- NCRR has a mission statement and values statement but does not have strategic plan
- NCRR lacks a formalized performance management system

Report pp. 17-18

Finding 4.

Changing the Corporate Status of NCRR Has Legal and Financial Implications



Salisbury Station

Railroads in Other States

- Other states own and some manage rail assets under state entity
- Owning railroads can provide income for government entities

Report pp. 19-20

Two Options for Changing NCRR Organizational Structure

1. Establish a North Carolina Railroad Agency as a quasi-public corporation
2. Establish a state railroad authority under Department of Transportation

Report pp. 20-22

Transferring NCRR Under State Government

- Requires lengthy and complicated process
- Has legal and financial implications
- Involves revoking charter and dissolution of the corporation
- Results in losing State and local government tax revenue

Report pp. 22-24

Is Transferring NCRR to State Government Necessary?

- Changing corporate status is feasible, but would need to decide if moving NCRR is in the best interest of the State of North Carolina
- Changing existing state law to strengthen NCRR's reporting is possible without revoking its charter

Report p. 25

Finding 5.

**Selling the North Carolina
Railroad Company May Not Be
in the Best Interest of North
Carolina, but Some Non-corridor
Properties Could Be Sold**

Selling NCRR May Eliminate or Negatively Affect Benefits to the State

- Loss of income stream
- Loss of valuable railroad corridor
- Loss of economic development opportunities

Report p. 27

Selling 14 NCRR Properties Could Provide One-time Revenue for the State



Boat Slips at Morehead City



Bridges St Lot at Morehead City

Report pp. 27-29

Recommendations



NC Railroad in Eastern North Carolina

Recommendation 1.

**The General Assembly Should
Amend Statutes to Strengthen
NCRR's Reporting Requirements**

Report p. 29

Additional Oversight Mechanisms

- Strengthen NCRR's reporting requirements
- Require strategic planning
- Require performance measurement
- Enhance NCRR's partnership with the Department of Transportation

Recommendation 2.

**The General Assembly Should
Require NCRR to Pay a One-time
Dividend of \$15.5 million
to the General Fund**

Report p. 30

One-time Dividend

- Use funds accumulated for future capital improvements
- Pay no later than June 30, 2013
- Still allows NCRR to operate and meet its obligations for future capital improvement projects

Recommendation 3.

**The General Assembly Should
Modify Statutes to Require NCRR
to Pay Annual Dividends
to the General Fund**

Report p. 31

Annual Dividend

- Beginning January 15, 2014
- Equal to 25% of income from the trackage rights agreement
- Amount estimated to be at least \$3.7 million each year
- Still allows NCRR to operate and meet its obligations for future capital improvement projects

Report p. 31

Recommendation 4.

**The General Assembly Should
Require NCRR to Convey 14
Properties Not Directly Related
to the Corridor to the State**

Report p. 32

Property Dividend

- Direct Department of Administration to sell NCRR non-corridor properties
- Deposit proceeds into the General Fund
- Tax value of these 14 properties is over \$6 million

Report p. 32

Summary of Findings

- NCRR has benefitted from its unique relationship with State, but NC has not profited financially from this relationship
- Selling NCRR may not be in the best interest of the State because valuable rail assets and long-term earnings potential would be lost, but some non-corridor property could be sold
- State has limited mechanisms for oversight

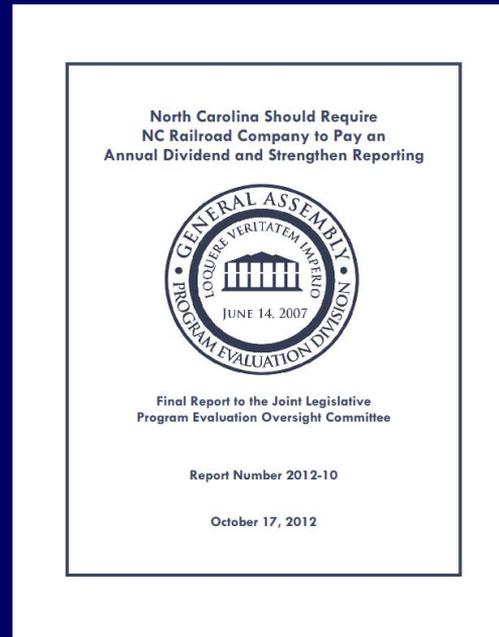
Summary of Recommendations

- Strengthen NCRR reporting requirements
- Direct NCRR to pay a one-time dividend and an annual dividend to the State
- Direct NCRR to convey 14 non-corridor properties to the State as a dividend

Legislative Options

- Accept the report
- Refer it to any appropriate committees
- Instruct staff to draft legislation based on any of the report's recommendations

**Report available online at
www.ncleg.net/PED/Reports/reports.html**



Jim Horne

Jim.Horne@ncleg.net